



“Sutlej Textiles and Industries Limited Q1 FY'17

Earnings Conference Call”

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MODERATOR: MR. ADITYA BAGUL -- AXIS CAPITAL LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sutlej Textiles Q1 FY'17 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, you may signal an operator by pressing '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Aditya Bagul from Axis Capital Limited. Thank you and over to you, Sir!

Aditya Bagul: Thank you, Mohsin. Good Evening everyone. On behalf of Axis Capital, I welcome you all to Q1 FY'17 Earnings Conference Call of Sutlej Textiles and Industries Limited. We have with us today from Sutlej Textiles, Mr. S. K. Khandelia – President and CEO, and Mr. Dilip Ghorawat – Whole Time Director and CFO.

I now request Mr. Ghorawat to give us a brief overview of the results and Mr. Khandelia to share his outlook on the sector and Sutlej Textiles in particular, post which we will open the call for Q&A. Over to you, Sir!

Dilip Ghorawat: Thanks, Aditya and Good Evening, everyone. I welcome you all to the earnings conference call for Q1 FY 2017 result of the Company. I have with me Shri. S. K. Khandelaji -- President and CEO and Stellar IR Advisors our Investor Relations Advisors. We have uploaded Investor Presentation and Press Release for Q1 FY 17 on BSE and NSE websites and on our website, and I hope you have gone through the same.

The Company reported revenue of Rs. 561 crores for Q1 FY 17, which grew by a robust 20% Y-o-Y as compared to Rs. 470 crores in the corresponding quarter of last year. During the quarter, sales volume also grew significantly by around 20% to 24,980 metric tonnes from 20,700 metric tonnes in Q1 FY'16.

The home textile production also increased to around 1300 thousand meters as compared to around 800 meters of Q1 FY'16.

Export sales grew by around 50% Y-o-Y to Rs. 166 crores as compared to Rs. 109 crores in the corresponding quarter of the previous year. The export sales were 28% to overall sales in Q1 FY 17 as compared to 22% of sales for Q1 FY'16 and 26% of whole of financial year 2016.

The company has exported to over 55 countries across the globe wherein we have added Japan, Oman, and others.

EBITDA for the quarter is Rs. 86 crores which grew by 23% YoY. We have recorded an EBITDA margin of 15.4% during this quarter Q1 FY 17. The net profit for the quarter is Rs. 45 crores as compared to Rs. 32 crores in Q1 FY'16 which is a significant increase of about 43% year-on-year.

The financial results for Q1 FY'17 and Q1 FY'16 are based on Ind AS. The financial result of Q1 FY'16 is exclusive of financial results of Birla Textile Mills which is in accordance with Ind AS 103 (Business Combinations)

Our consistent and healthy improved financial performance has enabled CARE to upgrade the rating of the company to CARE AA (Double AA) for its long-term facilities (term loans and fund based limits) from CARE AA- (Double AA minus).

I would now request Shri Khandeliaji to share the business outlook and industry scenario and then we can start the Q&A session. Thank you.

S. K. Khandelia:

Thank you, Dilip. Good evening everybody. Sutlej as you might know is the leading manufacturer of dyed yarn in the country and is one-stop shop for all types of yarn – be it man-made fiber or natural or combination thereof. The Company also has presence in the growing Home Textiles segment.

We have diversified yarn product portfolio and are continuously expanding our manufacturing facilities with a focus on the production of value added products.. We have strong global clientele across major developed and emerging economies and export to more than 55 countries.

As you know, we are expanding our Bhawani Mandi unit capacity by adding another 35,280 spindles to manufacture value added Cotton Blended and Cotton Mélange dyed yarns and knitted fabrics. The total project cost is Rs. 270 crores and is being funded by mix of internal accruals and term loans which is sanctioned under TUFs.

I am pleased to inform you that we have started the process of trial runs on first 9,000 spindles on 5th August, 2016. We expect the commercial production to commence for the entire project in Q4 2017 as per schedule.

The expansion work at our home textile division is under implementation and is likely to be completed by Q4 FY17 as per schedule. The total project cost is Rs. 88.50 crores and funded by mix of internal accruals and term loan sanctions under TUFs. Post this expansion, the capacity of home textile will increase to 9.60 million meters per annum. At present the installed capacity has reached to 8.00 million meters per annum.

We have invested around Rs. 17 crores during this quarter on our technological upgradation and debottlenecking, etc. and intend to deploy further Rs. 67 crores during the year towards the same.

We have made considerable headwind improvement in our operational efficiency and margins. We are consistently generating cash surplus and are evaluating various possibilities for growth

– organic as well as inorganic. We believe that improvement in contribution from high-margin value-added products and strengthening of home textile divisions will deliver better and consistent performance going forward.

This is briefly what I have to say. We can now take the questions, thank you.

Moderator: Thank you very much, sir. We will now begin the Question-and-Answer Session. We have our first question from the line of Dimple Kotak from SKS Capital & Research. Please go ahead. Ms. Kotak, please go ahead.

Dimple Kotak: And sir, my first quarter is what is the capacity utilization for this quarter?

S. K. Khandelia: 95%+.

Dimple Kotak: 95%+. And sir, I missed on your volumes. Can you just tell me what is the volume growth in yarn and your home textile?

S. K. Khandelia: So far volume growth in home textile is concerned, it has increased to 1,274 thousand meters from 796 thousand meters which is about 50% growth in home textile volumes because the process of expansion was going on. And as regards to yarn, we have increased volumes to around 25000 metric tonnes in Q1 FY 17 from about 20,000 metric tonnes in Q1 FY'16 representing a growth of around 25%.

Dimple Kotak: Okay, sir. And sir, what has been the impact of the recent cotton price rise on your raw materials?

S. K. Khandelia: Yes, this is very important question. As you know the cotton rates has gone up by about 45% from the beginning of April 2016. But since we are mainly in the value-added products of the cotton yarn, we have the pricing power. Because of our specialty yarn, we are able to pass on most of the increase in the cotton. Secondly, we always have some advance orders for the manufacture of yarn and for that we always have cotton in stock. So say, if there is two months' advance orders then two months' cotton in stock is always hedged. So far Sutlej is concerned the impact will be very negligible.

Dimple Kotak: Okay, sir. So sir, that means you have an inventory of around two months. so, we expect that there should be a marginal impact in your second quarter?

S. K. Khandelia: In second quarter, there will not be any impact because we still have two months' inventory as on date. It is little higher than the orders which we have in hand. Since we have been able to increase the prices so, we will not have any negative impact, but it will be having a little bit marginal benefit.

- Dimple Kotak:** Okay. And sir, what is the price at which you have the inventory of cotton ?
- S. K. Khandelia:** See the price at which we have bought the inventory at the end of June first quarter Q1 FY 17 was around Rs 36,000/- per candy..
- Dimple Kotak:** Okay, sir. And currently the prices, cotton is trading at?
- S. K. Khandelia:** Currently price of Shanker-6 cotton is trading at around Rs 48,500/- per candy. But since we always have the advance order also at the old prices so, we cannot get that benefit of the inventory immediately.
- Dimple Kotak:** Okay. And sir, your realization per kg been like?
- S. K. Khandelia:** The realization per kg in case of cotton mélange yarn has improved because of increase in the cotton prices; otherwise cotton prices are more or less steady for five months - six months. There were very minimal changes so there was no major increase in the prices and margins were intact. Now, with the increase in cotton prices of course the yarn prices have also gone up. In case of synthetics, the synthetic prices remained stabled from April this year. The same rates are going on what was there in April so, there is also no any major change. Prices are steady more or less.
- Dimple Kotak:** So, I think last quarter you said it was Rs 219 per kg. It was a blended realization per kg.
- S. K. Khandelia:** It is almost same I think more or less because there has not been any much change we have increased from value added products by reducing some commodity prices. So to that extent there is some improvement.
- Moderator:** Thank you. We have the next question from the line of Apurva Mehta from KSA Shares & Securities. Please go ahead.
- Apurva Mehta:** Sir, can you throw a focus on the future of the company; for example, today how the demand is and what do you see trend going forward? And our expansion plan for next two-three years?
- S. K. Khandelia:** Yes, so far the demand and the things are concerned; I think that the last two years has not been so good for the textile industry because of the drought for two years. Further the global economy had slowed down and this continues still. But so far we are concerned, we have variety of products, we do not deal in single products, we have many products and many markets and many customers., Even in these challenging time, we never had any problem of orders and we have always performed consistently – our margins have been consistent, our volumes have been consistent and our utilization has been consistent. Now going forward, as regards to the expansion plans of Sutlej is concerned, as you know I had already mentioned that this year we will be completing expansion by 35,280 spindles at Bhawani Mandi which

will be about 10% of the existing capacity. In Home Textiles our capacity was around 400 thousand meters per month which will increase to 800 thousand meters per month, so this will be doubled by the end of this year. Hence presently these are the expansion plans which are going on. So far as regards to future expansion/growth are concerned, since we are generating cash surplus consistently we believe that we will be able to do something more but as of now there is not any concrete proposal on the table. We are evaluating various options organic as well as inorganic. So going forward, I cannot say exactly what type of new expansion will be coming other than whatever has already been stated above..

Apurva Mehta: Sir, but any new expansion will be on the value added front ...

S. K. Khandelia: You see our philosophy is that we do not expand for the sake of expansion; we believe that until unless there is a reasonable margin in the expansion or there is any other product in textile space in which we can earn margins on sustainable business, then only we plan for expansion. So we are trying to find out such type of products in textile space only and I am sure that we will be able to do something in due course of time.

Apurva Mehta: Sir, we have acquired some land near Birla Textile...

S. K. Khandelia: Yes. The idea is that the Birla Textile Unit is having 83,000 spindles at present. We believe going forward we will be having some sort of expansion there also as land is not immediately available. Now we have acquired freehold land for the future growth of this unit.. Immediately there is no expansion plan at BTM.

Apurva Mehta: Sir, we have done quite a lot of export this quarter also, 28%, so, are we planning to increase that 28% to say 30%-35% or sir, what is your focus on export

S. K. Khandelia: Normally our export is around 25% - 26% of our revenues for the last three years-four years' figures .Sometime whenever the domestic market is not that good and export is better, then we increase our exports because we always have leverage of about 8% to 10%. We can reduce 8% to 10% we can increase 8% to 10% while maintaining our customers product and geographies. So, this year, the domestic markets were not that good; so, we increased our export to some extent.

Apurva Mehta: Okay. Sir, that margin which we have clocked in first quarter, can we maintain such types of margins or we can increase it further going down the line when we will add mélange and everything can we increase this margin to around 18%

S. K. Khandelia: As you know textile is cyclical business to some extent. I believe that there should not be any problem in sustaining the results and performance to a large extent. There are so many variables like exchange rate, cotton prices, man-made fiber prices, yarns varieties so many things. But now going forward there are three to four triggers which would improve the market

conditions after the good monsoon. You see last two years we have seen drought and now the monsoon has been very good this year, due to that rural demand is definitely likely to improve and there should be a good trigger for better demand, better prices will also result in the margins to improve as you know. Secondly Government is going to distribute arrears of 7th Pay Commission with the August 2016 salary beginning from the January 2016 and that is about to Rs 30,000 Crs of payment and total provision of this year in government budget is of around Rs 70,000 Crs on this particular increase. So this money is also going to the consumers and that will also increase some demand for the textile. So in the past we have seen that whenever demand is better, realizations are better, margins are also better. Secondly, since whatever addition we are doing is for the value added yarn, so I feel that there should not be any major problem relating to sustainable margin but of course it all depends upon so many things.

Apurva Mehta: Sir, can you throw some light on the home textile divisions how is the demand.

S. K. Khandelia: The home textile has very good demand. You see we shall reach capacity of 9.6 million meters of production whereas the demand is growing at the CAGR of around 8% as per reports available with us. So there is no matching and hence there should not be a problem.

Apurva Mehta: Sir, what type of margins do we have in home textile?

S. K. Khandelia: You see, we have started major focus on this business and hence expanding capacities in Home Textiles from 2 lakh meters a month to 8 lakh meters a month by end of Q4 2017. In time span of one and half years, the EBIDTA margins have improved to about 16% but this is high margin business and we hope in due course of time it should not be difficult to get margin of 20%-22% in this business.

Apurva Mehta: Okay. So, sir going forward we will export mostly home textiles or we will have domestic supplies also.

S. K. Khandelia: We have mix, even now we are exporting about 25% of our home textile and 75% is domestic but going forward, we have the plans to increase it to 50% export and 50% domestic.

Apurva Mehta: Okay. And sir, going down the line, two- three years down the line home textile will be in percentage of sales will be around 25%?

S. K. Khandelia: No, it will be around 10% but after once we consolidate this expansion, we go for more value-added qualities home textile, we are able to add more customers and geographies then we can always look for more expansion but in future it is a good line. It is a good diversion in our existing yarn e business.

- Moderator:** Thank you. We have the next question from the line of Rishab Bothra from JHP Securities. Please go ahead.
- Rishab Bothra:** Just wanted to understand how our customers are placed, I mean who are our top five customers if you want to categorize and what portion of our revenue is derived from the Aditya Birla group?
- S. K. Khandelja:** Aditya Birla group?
- Rishab Bothra:** Yes.
- S. K. Khandelja:** You see in Aditya Birla group, so far textiles is concerned, it has one unit in Bhawani that is Gwalior / Grasim that is only spinning as well as weaving. So, we are supplying to customers which are very much scattered but they are regularly buying from us may be 25%-30% of their requirement but in terms of volume if you say it will be very less. Our five top customers are namely Page Industries, Shivalik Industries, Gwalior Rayon ,Reliance Industries Raymonds , Arvind, Siyaram etc., These are our major customers but everywhere the total quantity of sale to these customers will not exceed around 5% -8% of our overall revenues..
- Rishab Bothra:** Okay. Can there be a possibility that Aditya Birla Fashion or Aditya Birla Nuvo also acquires your product or how it is.
- S. K. Khandelja:** No, they are in retail and retail products whereas we are in B 2 B product. So there is no possibility of directly selling yarn to them and they are not in home textile.
- Rishab Bothra:** Of course not for home textile purpose, so it will be only routed through Grasim going forward also?
- S. K. Khandelja:** Yes, for them it is going through Grasim and Aditya Birla Nuvo. I believe, they are buying from other sources also to whom we are supplying say they may be buying from Raymond's, Siyaram and other people also I believe so.
- Rishab Bothra:** So Aditya Birla group or Grasim *per se* does not fall under the high customer profile category?
- S. K. Khandelja:** No.
- Rishab Bothra:** And transactions are at arm's length.
- S. K. Khandelja:** Yes, they do fall under the very good customer listing but the volume is not like that we get dependent on them or like that. Naturally all transactions with them are at arm's length.

- Rishab Bothra:** But sir, I could not understand because that was more so relate to promoter entity few years back until Mr Nopany sir came into or other stuff. Same Birla group client, so why we have not been able to penetrate in that particular business group per se ?
- S. K. Khandelvia:** No, we are in textiles and in textile as I mentioned to you they have only very small portion of their overall business. And there also we do not want to supply 100% of their requirement. We have so many other customers and are not dependant on any one customer.
- Rishab Bothra:** Right. And in respect of sir, if we want to understand where can be the key delta for another growth you can buy another company or moving into another orbit at a larger scale what could be two - three factors which we would like to highlight that it could be volume growth it could be margin expansion it could be cost rationalization or all this combined put together and to what extent I mean growth visibility two years down the line not 17...
- S. K. Khandelvia:** Growth visibility in two years down the line will be coming from the expansion project which is going ahead in Bhawani Mandi, Rajasthan that is for the value-added yarn only. 10% capacity addition will be for value-added yarn also and say at present we have about 30% of mélange and mélange products so that will become 40% of the total capacity. Secondly growth will be coming from home textile in view of ongoing expansion to 9.60 mn metres p.a as it is going to be a high margin business in due course of time.
- Rishab Bothra:** Sir, but to my understanding as of now lot of Indian companies are moving towards home textile in a big fashion or big manner, assuming that there will be a lot of margin improvement or scope but do not you think there will be a overcapacity of over supply...
- S. K. Khandelvia:** You see home textile is a big word and we are in curtains and upholstery and many other people like Trident and Welspun are in towel, bed sheet etc. So, our products are different and in our segment of Home Textiles I do not think there are any big players like D'décor or something like that only who are the organized players in this field otherwise most of the players are unorganized or not having the design capabilities or something like that. So, the space where we are going into the home textile is not very much crowded.
- Rishab Bothra:** Not crowded and lastly sir, could be one question or two more questions. I think we have plants in J&K, right?
- S. K. Khandelvia:** Yes.
- Rishab Bothra:** And those are tax incentive plans I mean tax benefits are there certain tax benefit?
- S. K. Khandelvia:** No there is no tax benefits presently available to us.
- Rishab Bothra:** Accelerated depreciation, all those stuff?

- S. K. Khandelia:** No, nothing.
- Rishab Bothra:** Nothing. But what could be the quantum of I mean we would have been at a different place let us say could our transportation cost be lower because we are trying to move into export market also aggressively you mentioned.
- S. K. Khandelia:** No, you see in export our transportation cost to total value of the revenue is not much, even if it is in Jaipur or Jammu, it does not make much different as there are nearby markets like Punjab, Delhi etc and some other markets which are very near to them so, it gets neutralized.
- Dilip Ghorawat:** Rishab, I would like to add two things more there. We are exporting through Ludhiana Dry Port which is about 2.5 to 3 hours from Jammu and there is a rail transport of Concor to Mundra port etc. Hence it does not make any impact on overall costs.
- Rishab Bothra:** Difference, there is no difference actually.
- Dilip Ghorawat:** Yes. So in Jammu there are two-three major factors which gives us the benefit like we have cheap labour, there is good quantity of water for our facilities which we require and there is an abundant quality of labour around Punjab and other places as we are only 15 kilometers away from Punjab. So these factors have further contributed to our growth there.
- Rishab Bothra:** Okay. And sir, the climate which we are hearing a lot of floods and all those, how we are placed in terms of terrain which area we are...
- S. K. Khandelia:** No, we are in Kathua and that is on the high altitude and floods can come even in Mumbai.
- Rishab Bothra:** True. Sir, is there plan of increase in dividend or any that sort of decision to be made..
- S. K. Khandelia:** This is the not dividend season I think. Last year we had increased the dividend to Rs 13 per share which is around 18% payout.
- Dilip Ghorawat:** Yes, we have increased it but as you know we are also going for an expansion and growth plan, company is generating free cash flows also. We will take a call at an appropriate time which the board will decide.
- Rishab Bothra:** I think some SEBI policy has also come in where every...
- Dilip Ghorawat:** This is applicable for top 500 Companies and we are not in that category presently.
- Rishab Bothra:** Okay hope and wish you reach there at a faster pace.

Moderator: Thank you. We have the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: I have two questions. First, I wanted to know your outlook on cotton price. And second question was that suppose cotton continues to stay in this Rs. 48,000 - Rs. 49,000 a candy; so, like you said you have two-three months of inventory, or till around October, November you will be selling yarn manufactured from cotton which is at Rs 36,000 but after that point in time will you be able to completely pass on this 30%-40% increase in cotton price?

S. K. Khandelia: I will explain you. The new proper cotton will start coming sometime in October and it will be available in abundance in sometime around 15th November. So, till 15th November, the prices may not come down too much but some fall is expected because with the sentiment that new crop is coming, some prices fall is expected even in October end. So, we have the cotton for 15th October or something like that till then we are protected and there after the cotton prices you see have gone too fast and too fast which is not sustainable. These prices after 15th November are bound to fall in my opinion because there is not any major reason due to which these should increase to this level. The only thing is happened that last year was drought and production was less and reliable data was not available even with the textile commissioner and because of that the crop was short and that was not known to the industry at that point of time so, when it came to know, the prices just spurted because it was off season. After 15th November prices will come to the normal level say around Rs. 37,000 - Rs. 38,000 per candy something like that it is going to stabilize in my opinion.

Second thing, even if I say it stays at say Rs. 48,000 naturally it is not only in India, it is an international business. So if it is Rs. 48,000 in India and outside if it is less than Rs 48,000/- per candy, then cotton will be imported from outside country to the India which will neutralize the Indian price also. Further International Cotton Advisory Committee is not projecting any such increase in the prices in November, December, and January. In case it stays Sutlej will have the pricing power to pass it on to its customers. May be with a leg of 30-35 days there is something like that.

Arjun Sengar: Okay. So currently international prices are how much lower than in India.

S. K. Khandelia: About Rs. 3,000 per candy which translates to about Rs. 10 a kg but you see since now if somebody books the orders when the cotton is shipped and it comes to India, the new season may be approaching and since the pricing in India is at an abnormal high level and no one wants to take risk except somebody who is very near to the port like South India mills or something like that. So these prices are not going to sustain any case in my opinion and we are not impacted because we have inventory and if it continues to be like that as I mentioned we will be able to pass it on because ours is a value-added and special product.

- Moderator:** Thank you. We have the next question from the line of Harish Shriyan from Quest Investment Advisors. Please go ahead.
- Harish Shriyan:** Yes, the trial run for the Bhawani Mandi 9,000 spindles has started just now, so when will the actual sale start from these spindles?
- S. K. Khandelia:** See, till the commercial production comes in from entire production whatever comes of the trial run will be pre- operative expenses. Second thing, the packing will start coming for this 9,000 spindles say in next 10-12 days. The process is already going ahead and from blow room it was started so, after 10 days - 12 days packing will start coming and that material will be sold but any gain / loss in that product will be preoperative expenses and it will not impact our EBITDA.
- Harish Shriyan:** Okay. And in home textile division we are expanding to 9.6 million meters so at a full capacity what amount of yarn will be captively used by us?
- S. K. Khandelia:** No, majority of yarn is outsourced because our yarn is different and the yarn which is required for home textile is either filament yarn which we do not manufacture or some other grey cotton yarn which we also do not manufacture and it require many types of yarn. Home textile is a combination of many types of yarn, it is design fabric, so we purchase it from outside.
- Harish Shriyan:** Okay. As textile policy is expected any moment any color on how it will be affecting us or benefit to us?
- S. K. Khandelia:** It is definitely for the good only because the government has realized that it is the only sector which can generate employment etc you must have seen for the garments GOI have already issued a policy with a support package of Rs. 6,000 crores. I think certain changes for labour, and other things, similar demand has been raised by the spinning, weaving and other sectors also. So it may not be exactly the same but the Textile Secretary as well Textile Minister has gone on to record to say that yes, we are considering these type of things for other textile sectors also. So that is going to be a positive for us also.
- Harish Shriyan:** Okay. Some time back we have closed down our garment division due to some reasons, but with the new textile policy are we thinking on the garment division to be started?
- S. K. Khandelia:** No, it is not our cup of tea as we feel it requires a totally different set of skill and different set of persuasion and we felt that it is taking a lot of our time for this business out of existing business so, we do not have any intention to go at this point of time.
- Moderator:** Thank you. We have the next question from the line of Tushar Pendharkar from Right Horizons. Please go ahead.

- Tushar Pendharkar:** Sir, last year your tax rate was around 18% to 19% but this year in this quarter it is around 13%-14% so will it remains same or if it is low then could you elaborate some?
- S. K. Khandelia:** Dilip, please answer.
- Dilip Ghorawat:** The tax rate for the whole year will be around 20% as what we have indicated earlier because there will be some capitalizations, claims of Investment Allowance etc. I would request you please be guided by 20% for the whole year.
- Moderator:** Thank you. We have the next question from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.
- Ujwal Shah:** My question pertains to your home textile business, so considering that we are slowly steadily increasing our capacity in this division may be three years - five years down the line should not this division be contributing a lot more to our revenues, why do we say that it will still pertain at 10% of the revenues?
- S. K. Khandelia:** No, you see 10% revenue is based on the assumption of current projection which we have for the next one year or two years only. See, if something more happens in this division going forward naturally the revenue can go up to 20%-30% even in due course of time. 10% is based on whatever we have expanded, whatever we have programmed for this year and the quality and other things which we have planned for next year. So our outlook is up to 2017-2018 only.
- Dilip Ghorawat:** See Ujwal, we need to go to the Board and inform the stock exchange for any growth plans we have in mind. As stated earlier, we are looking for organic and inorganic growth for value-added products in textile segment only. There are many opportunities available now. We will evaluate each proposal each opportunity at an appropriate time and we will come back to you on this after proper compliance.
- Ujwal Shah:** And sir, what is the margin differential that we see? So what kind of margins does home textile earn for us?
- Dilip Ghorawat:** See going forward it should be more than 20%. At present for this quarter it is about 16%. We feel there is a good opportunity for this segment once it reaches 9.6 million meters. In next two years, we feel this segment could contribute around 20% in EBITDA.
- Ujwal Shah:** Okay, sir. And sir, in terms of international yarn prices can you just guide us what are the current international and domestic yarn prices I am considering that the cotton has seen a strong run up believe we have not seen a consequent run up in yarn prices as such is the guess estimate right sir?

- S. K. Khandelia:** Yes, I believe that you are asking for the grey cotton yarn mainly because grey cotton yarn is the price which naturally gets affected immediately so naturally since the cotton has gone up 45% from May till now and that is in combed cotton yarn which is the major yarn that translates to about Rs. 55 a kg to Rs. 60 a kg of rate increase which has not happened. So, about Rs. 35 has increased so far from that point of time and about Rs. 25 has not yet increased, but ultimately either somebody will have to switch off some of the capacities or the rates will have to go up which may not be exactly the same but some rates have still to go up.
- Dilip Ghorawat:** Coming to our value added mélange yarn as Shri Khandelajii has said we have price power to increase the prices but there is a backlog of orders in our segment of value-added mélange yarn. Hence, we are able to pass on some extent of increase to our customers.
- Moderator:** Thank you. We have the next question from the line of Jimesh Sanghvi from SBI Cap Securities. Please go ahead.
- Jimesh Sanghvi:** I wanted to know how will be the mélange yarn market globally and if there are any global competition to us and if there are any imports of mélange yarn into India?
- S. K. Khandelia:** You see this is a specialty product so far competition is concerned the demand of this type of yarn is very limited but it requires special set of skills to manufacture such types of yarns is not readily available. So that is why it is not like a commodity or something like that. It is a very specialized yarn and that requires special set of skill and therefore the competition in that type of yarn which we manufacture is totally different type.
- Jimesh Sanghvi:** Right. But will there be any one who will be globally exporting of companies in India who will procuring this kind of yarn from may be international players as well?
- S. K. Khandelia:** There are some companies in China and other places but not exactly the same type of yarns which we manufacture because each order is different it is not like that today you manufacture this yarn. It is you can say a broad name mélange but each order is different.
- Jimesh Sanghvi:** No, why I am asking you is because I wanted to understand because you said that probably we could be in a position to pass on the cost increases so, just wanted to get a sense because cost will depend on how the global market players behave in this particular scenario and how?
- S. K. Khandelia:** I give you the reason it is all sampling based business if I have given a particular sample and if somebody has approved that for particular garment and if he comes back to me he has to buy that yarn for me only so the customer cannot get it from anywhere else because samples have been developed by me that is the reason.
- Moderator:** Thank you. We have the next question from the line of Rishab Bothra from JHP Securities. Please go ahead.

Rishab Bothra: Sir, you could have given the impact of Ind AS for last year, it could have been better if FY'16 and FY'15 figures are also represented in IndAS?

Dilip Ghorawat: Rishab, the impact is minimal. In fact, it is on a higher side reason being that there will be some further addition to the income on account of Interest on preference share investments. So, since we wanted to discuss with our Auditors, implementing consultant etc, and secondly we feel that there could be some further clarifications by the Institute and Government on Ind AS. Hence in case we disclose some numbers we do not want to change it later on so we thought that on a conservative side we shall disclose at appropriate time because it is an option given by SEBI and each corporate has to exercise as per that option so, we have exercised it. At an appropriate time we will certainly come out but the results as per Ind AS which will be better than what was declared in March 2016 as per I GAAP..

Rishab Bothra: Sir we have seen a lot of consolidation in the cement industry per se but we have not seen consolidation in the textile industry and textile industry itself is a very fragmented industry what could be the possibility on account of GST or other issues where we can see a consolidation industry and what size of opportunity you would be looking at in different segment?

S. K. Khandelia: GST has nothing to do with this sort of consolidation, GST because most of the duties were only at the first stage basically so far excise duty is concerned it was only on polyester there was no duty on cotton and different states has different VAT, so VAT was there almost more or less same in each state. So this consolidation will not happen because of this GST but the consolidation has been happening wherever there has been any possibility. But you see the technology changes has been very fast in this industry so, you see if some old industry is ready to sell his factory and the buyer is not interested because that is old factory with old technology and if somebody has a new factory and doing well why he will sell and then again the individual owners are there and wherever anybody wants to sell somebody's purchasing it.

Rishab Bothra: Why I am asking to this question is there has been lot of CDR cases let us say for example S.Kumars, Reid & Taylor those are also looks it might not fit into our category of business there could be some unlisted players or other small SME who have defaulted in their assets though would be in a better shape technology wise also because they have expanded and they have not been able to pay, could we see opportunity which we are eying because as of now we what we have seen we have grown as a company organically there has been no major inorganic organization barring our company which was also our own?

S. K. Khandelia: No that transaction was at arm's length transaction as regards to Birla Textile is concerned. There was a proper bidding process and there were investment bankers involved. Somebody else could have also acquired it as it was open for anybody. So that has been a big acquisition by us because we found that it is a good unit. It was established in 2000 only, it was not very

old and 50% of the capacity was expanded only in 2008. Further we keep on getting the proposals for many CDR cases from the banks as well as from the investment bankers and some from the promoter's directly. We keep on evaluating them and we take a final call only if it suits us.

- Rishab Bothra:** Nothing as of now.
- S. K. Khandelia:** No, nothing as of now.
- Dilip Ghorawat:** See Rishab, coming to BTM business, the price we have paid is for fairly new spindles which are not too old, virtually debt free and we have evaluated all these aspects while acquiring the unit. It has not done with the closed eye.
- Rishab Bothra:** Right, definitely sir, whenever an acquisition has to be made it has to done through open eye only if synergy do take place, if someone is in distress and he wants to get himself build out.
- S. K. Khandelia:** Such type of situation does come even in textile industry you are 100% correct but many units are highly stressed and there are CDR cases also but you see normally in these type of CDR cases the banks have not been able to come to the reasonable levels of pricing like in case of Alok, you must have seen that the level of debts and other things are higher and then there were some Court order stay and something like that.
- Rishab Bothra:** Right. Sir in Mr Nopany sir case which other major business is he focused
- Dilip Ghorawat:** He is focused on Sutlej Textiles as far as we are concerned.
- Rishab Bothra:** Sir, lastly you mention on m elange it is a specialty product what are its major usage is it related to defense also to an extent or how is it?
- S. K. Khandelia:** No, it has nothing to do with defense. It is a fashion fabric and used for garments.
- Moderator:** Thank you. We have the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Just had one more question, how is GST going to affect the three broad segments of textile like yarn, fabrics and garments? And also how is it going to affect cotton vis- -vis synthetic?
- S. K. Khandelia:** You see, as you know that still many details are yet to come like rates and other things and what type of things will come under ambit of GST etc ? Whether they are going to exempt cotton or not or whether they are going to have same thing for the entire textile value chain so, these things are still not out. But I personally feel and based on the decisions which we have so far with the Ministry and other government officials that the GST in case of textile is seamless.

Seamless means from fiber (raw material) to garments. Everywhere the same rate of GST is likely to be applied without any exemption. Second thing is that the rate which we are recommending to the government there should be a merit rate there means it should be lower than the standard rate and that is why we say if the standard rate say for example is 18% we say the merit if it is 12% on textile it should be 12%. Now coming to synthetic and cotton – so far synthetic is concerned it will definitely have a positively affect because the synthetic has a higher duty. Synthetic has a 12% duty on fiber excise duty whereas cotton has zero duty on fiber. So going forward, so for cotton and synthetic both will be the same whether it is cotton or synthetic so synthetic is going to have a positive impact and then the growth of synthetic is expected to be more than that of the cotton. In India we have reverse ratio cotton is preferred because of the zero duty except VAT and something like that. In case of synthetic we have everywhere higher duty incidence.

Arjun Sengar:

So you are saying the cotton value chain would become more expensive?

S. K. Khandelia:

As of now, it looks like that but if you take into account VAT. Every state has a VAT on garments ultimate it is the garment. In fabric there is no VAT in some state, in some state levied as 5% VAT only. Then there are anti-taxes then there are so many other taxes if we include all these taxes then the gap between the taxes which will be going to be there even in case of cotton that gap will not be very high. But of course, it appears that there will be some sort of increase in cotton related products.

Moderator:

Thank you. We have the next question from the line of Harish Shriyan from Quest Investment Advisors. Please go ahead.

Harish Shriyan:

Yes, according to the new Accounting Standard now we are supposed to include the interest accrued but not due on the own capital. So how much is amount including in Q1 now?

Dilip Ghorawat:

If you see the results which we have uploaded it on the BSE /NSE, the interest on preference capital investment is approx. Rs. 98 lakhs for the quarter and for the whole year it will be about Rs. 3.96 Crs..

Harish Shriyan:

Rs. 3.96 Crs and this is cumulative preference dividend when it is due as per the terms?

Dilip Ghorawat:

As per terms it is due in 2022.

Harish Shriyan:

2022. So up to now what is the cumulative accumulated interest?

Dilip Ghorawat:

It is about Rs. 12 crores as per Ind AS .Reserves and Surplus will change accordingly once we publish the March 2016 result as per Ind AS.

Harish Shriyan:

Okay. And second thing is do we have any MAT credit yet to be availed?

- Dilip Ghorawat:** Yes, we have MAT credit yet to be availed plus we will be getting additional MAT credit based on last assessment done of AY 2013-14 for ongoing assessment of 2014-15 and verdict of appeal filed for AY 2012-13 with CIT (A). Hence there will be MAT accumulation which will be utilized during next three years based on assumption of existing profits.
- Harish Shriyan:** And you have guided for the 20% tax for FY'17 this is inclusive of the credit of MAT and any impact of the deferred tax also for the capex.
- Dilip Ghorawat:** Everything.
- Moderator:** Thank you. As there are no further questions, I now hand the conference call over to the management for closing comments.
- S. K. Khandelia:** Thank you all for participating in Q1 FY 17 earnings conference call. The questions were very good, everybody wanted to know about cotton and other things. Cotton is a big worry but in our case I would like to clarify again that because we are in value-added products we are not impacted though many of the grey cotton yarn units have been impacted. Second thing, last year we bought the Birla Textile Mills and we have been able to improve its performance to a large extent and going forward it will also help us in improving our overall performance of the company and since these two years were not very good and now because of the monsoon and other factors which I had mentioned, we believe that coming time should be better.
- Dilip Ghorawat:** Thank you everybody and we look for a better fruitful year FY'17 going forward.
- Moderator:** Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.